# *A positive path*

# South Africa – Major banks analysis

*PwC analysis of major banks' results for the reporting period ended 31 December 2017*

*March 2018*

pwc

*www.pwc.co.za/banking-analysis*

# Contents

*This analysis presents the combined local currency results of Barclays Africa, FirstRand, Nedbank and Standard Bank. Investec and Capitec, the other major players in the South African banking market, have not been included due to their unique business mix and different reporting periods.*

# Overall financial performance

*Given heightened political and economic uncertainty, low GDP growth and subdued household and business confidence in SA, aggregate credit growth was again muted for the period, particularly in certain retail portfolios with strong sensitivity to the economic cycle.*

*Current macroeconomic environment, high funding costs and disciplined pricing of financial resources continued to place pressure on corporate portfolios, specifically in the investment grade segment.*

*The major banks remain focused on many of the strategic themes noted previously – including digitising legacy processes through robotic process automation efforts, replacing and upgrading legacy system architecture, and channel and product innovation with a view to delivering richer customer experiences.*

## Combined key metrics: 2H17

| | 2H17 | | 1H17 |
|---|---|---|---|
| ROE%, up 72bps | **18.6%** | ↑ | 17.9% |
| Common Equity Tier 1 %, down 25bps | **13.1%** | ↓ | 13.3% |
| Net interest margin %, up 26bps | **4.68%** | ↑ | 4.42% |
| Cost-to-income %, down 22bps | **55.8%** | ↓ | 55.6% |
| Credit loss ratio, up 11bps | **0.73%** | ↑ | 0.84% |

## Growth

| | 2H17 vs 1H17 | 2H17 vs 2H16 | FY17 vs FY16 |
|---|---|---|---|
| Combined headline earnings | 11.6% | 6.4% | **5.2%** |
| Core earnings | 1.7% | 5.0% | **3.6%** |
| Bad debts charge | -10.6% | -0.7% | **-8.1%** |
| Net interest income | 5.8% | 5.6% | **3.8%** |
| Total operating income | 4.3% | 5.8% | **3.8%** |
| Total operating expenses | 6.2% | 6.4% | **4.0%** |

# The big picture

1

## Industry overview and macroeconomic developments

*Costa Natsas*
Banking & Capital Markets
Leader: Africa
costa.natsas@pwc.com

*Rivaan Roopnarain*
Banking & Capital Markets
Senior Manager
rivaan.roopnarain@pwc.com

What a difference a year makes. When we wrote the outlook for the year in our March 2017 edition, we were challenged to find evidence for optimism. At the dawn of 2017, expectations for markets, global trade, geopolitical stability and the domestic political climate were concerning. The US had just sworn in a new administration, with an agenda that many saw as idiosyncratic and with genuine concerns about a slide towards protectionism over globalisation. Across the Atlantic, the UK had caused a collective holding of breath as the vote to leave the EU continued (and continues) to fuel uncertainty. In South Africa, markets awaited the ANC's December elective conference – which at the time seemed a distant prospect – before contemplating the idea of much-needed policy certainty.

Fast forward to present day, and things look different.

# External developments[1]

## *Macroeconomic landscape*

When all the data is in, 2017 will almost certainly turn out to be the best year the global economy has seen since 2010. This rising tide is not just an overall macroeconomic phenomenon; it is balanced across regions. Most of the world's major economies are experiencing positive growth in contrast to their experiences of just a few years ago.

In 2015, Russia and Brazil were in recessions brought on by plummeting commodity prices and political unrest. The southern countries in the Eurozone – most notably Greece – were on the brink of debt default, or in default, and threatening to bring down the euro, while China's surging growth had taken a hit from the Shanghai market crash.

Today, global commodity prices appear to have stabilised at a moderate level. Russia and Brazil have returned to modest growth; China is doing well, and the Eurozone has mounted a steady recovery that looks set to continue in 2018. Even the UK economy, while slowing over 2017, has not yet been severely impacted by Brexit – or at least not at the levels foreseen at the time of the vote in 2016. As for the United States, the domestic economy is chugging along at 3% growth.

Yet this picture of macro positivity requires context.

## *The world's CEOs look to the future with optimism and anxiety*

In our 21st Global Annual CEO Survey, PwC has taken the pulse of close to 1 300 chief executives in 85 countries. It paints a remarkable portrait of business leaders who remain confident in the world's growth prospects, but who can't ignore the barrage of risks facing them now, or in the near future.

Despite record levels of short-term optimism in the global economy, CEOs worldwide report heightened levels of anxiety regarding the business, economic and, particularly, the societal threats confronting their organisations. Our study sheds light on this seeming contradiction and the factors contributing to CEOs' anxiously optimistic outlook on 2018 and beyond.

While this year saw the highest-ever jump to the highest-ever level of CEO optimism regarding global growth prospects over the next 12 months (Exhibit 1), others see signs of irrational exuberance and believe that for a lasting recovery, the global economy and individual countries need a more comprehensive, broader-based, deliberate change of context. Indeed, when it comes to confidence about their organisation's own three-year prospects, CEOs are more cautious (Exhibit 2).

While celebrating the prospects for global economic growth – at least in the short term – CEOs in every region report heightened levels of anxiety about their own organisation's longer-term prospects for revenue growth as they confront growing stakeholder expectations and unprecedented threats that are not of the market's making. As our Global Chairman, Bob Moritz, summarises in his message in this year's survey:

This year's study also sheds light on a broader trend: the developing misalignment between global economic growth on the one hand and social progress on the other. For decades they moved in tandem. Market-based economies have prospered, and so have their citizens.

The three principal drivers of change – globalisation, technological advances, and financial focus (meaning a view of value based primarily on GDP and shareholder value) – have fuelled a virtuous cycle that has lifted billions out of poverty, prolonged life expectancy worldwide, and facilitated a rich exchange of knowledge and talent that has spurred unprecedented productivity and innovation. However, the past decade has also seen a growing gap between the beneficiaries of this prosperity, as these same market forces – globalisation, technological advances, and financial focus – increase transparency and enhance instantaneous, global communication.

What role can CEOs play to help arrest this growing divide? We outline four possible approaches:

- First, adopt new measures of prosperity that look beyond economic growth to social progress;
- Second, foster a beneficial place for technology in our society;
- Third, educate for the future; and
- Finally, commit to a purpose

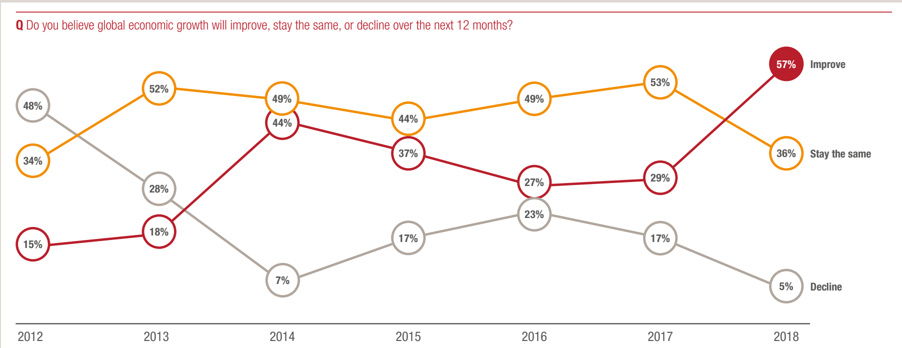
Each of these four areas are unpacked in further detail in our study. Interestingly, they also trigger the question: so what keeps CEOs up at night?

[1] Paul Hannon, "OECD Sees Global Economic Growth Reaching Seven-Year High," Wall Street Journal, Nov. 28, 2017, www.wsj.com/articles/oecd-sees-global-economicgrowth-reaching-seven-year-high-1511863206?mg=prod/accounts-wsj

Not surprisingly, there are regional differences between CEOs across the globe who report a different mix of threats as the most concerning, but one general global observation is that CEOs across the world are increasingly anxious about broader societal threats – such as geopolitical uncertainty, terrorism and climate change.

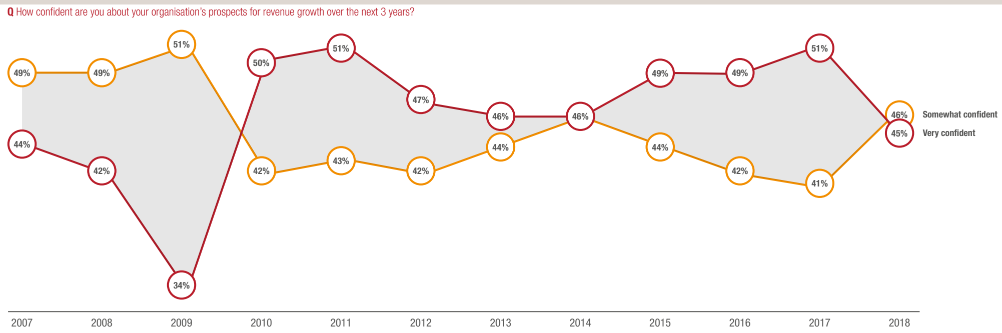
In regions like ours where emerging economies are dominant – Latin America, Central and Eastern Europe, the Middle East, and Africa – our study also shows that 'social instability' is a consistent top 10 'extreme concern' on the minds of CEOs (Exhibit 3).

## Exhibit 1: A majority of CEOs believe global economic growth will 'improve' over the next 12 months



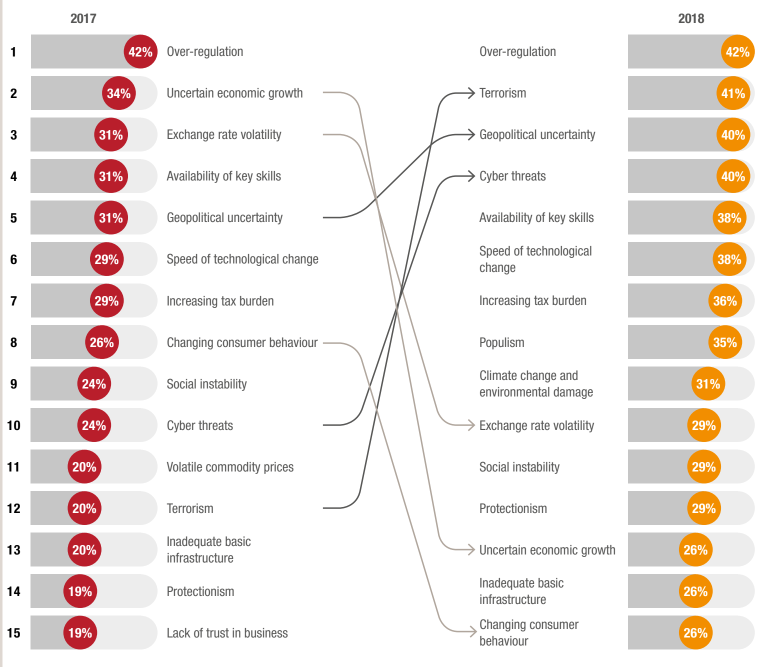

*Source: PwC's 21st Annual Global CEO Survey*

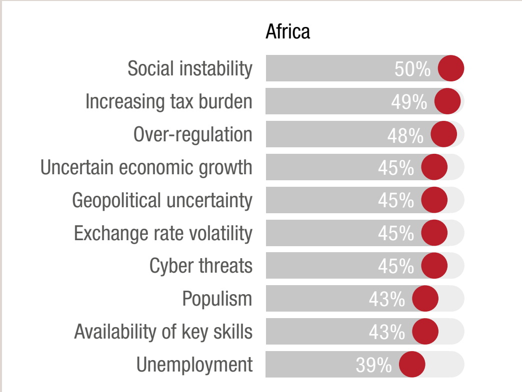
## Exhibit 2: When it comes to confidence about their own three-year prospects, CEOs are more cautious




*Source: PwC's 21st Annual Global CEO Survey*

## Exhibit 3: Considering the following threats to your organisation's growth prospects, how concerned are you about the following?




*Source: PwC's 21st Annual Global CEO Survey*

## *Domestic economic landscape*

After recovering from technical recession in early 2017, South Africa's economic growth remained slow for a fifth consecutive year in 2017. The South African economy expanded by 3.1% quarter-on-quarter during Q4-17[2], stronger than the preceding quarter's growth reading of 2.3%.

Accelerated growth near the end of 2017 resulted in overall annual economic growth rising from a revised 0.6% in 2016 to 1.3% in 2017, supported by firmer global commodity prices and a recovery in agricultural production following protracted drought periods.

However, consistent with conditions previously observed, household and business confidence measures remained depressed for most of 2017, largely a function of the sustained levels of political and economic uncertainty that hung over the domestic economy for much, if not all, of 2017.

In July, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) reduced interest rates by 25bps to 6.75%, heralding the first rate cut in five years. Rates were subsequently left unchanged at both the September and November MPC meetings.

Some commentators have noted, and this was articulated in National Treasury's Medium Term Budget Policy Statement, that the SARB's cautious approach is being driven by concerns that SA's rand-denominated sovereign debt ratings could be downgraded to sub-investment grade by all three major rating agencies given heightened levels of political uncertainty and deterioration in the fiscus.

As consumers benefitted from lower levels of inflation than those seen previously and the marginal reduction in interest rates, somewhat elevated levels of consumer spending – although off a low base – added some economic momentum in 2H17. Despite this, trading volumes in 2017 were generally lower than in 2016. This played out on the major banks' balance sheets and were reflected in slower levels of aggregate loan growth.

In various markets on the continent outside South Africa, economic growth improved somewhat, supported by global commodity price recoveries, improved rainfall and continued infrastructure investments. Key fiscal challenges remain a challenge to growth in several African markets, notably Mozambique, Ghana and Zambia, while interest rates cuts were broad-based across several of these territories.

International Monetary Fund (IMF) research indicates sub-Saharan Africa recorded GDP growth of 2.6% in 2017, with an expectation of 3.4% for 2018.


2 http://www.statssa.gov.za/publications/P0441/P04414thQuarter2017.pdf

# Stakeholder expectations

## *Prudential regulation*

On 7 December, the Basel Committee on Banking Supervision (BCBS) published the much awaited final instalments of its reforms for the calculation of risk-weighted assets (RWA) and capital floors. These papers complete the work that the BCBS has been undertaking since 2012 to recalibrate the Basel III framework – which was introduced to address the most pressing deficiencies that emerged from the financial crisis of 2007-2008 and make banks more resilient.

The finalised reforms, together with earlier publications that revise the calculation of RWAs – including the updated market risk framework (the Fundamental Review of the Trading Book or [FRTB]) published in January 2016 – are collectively referred to as 'Basel IV' by the industry, in recognition of the scale and extent of the changes they introduce. These include revisions to the RWA calculation for all Pillar 1 risk types, meaning that banks that utilise both standardised and internally-modelled approaches will be impacted.

While Basel III focused on the reform of regulatory capital, the Basel IV package changes the approaches for the calculation methodology of RWAs and introduces an output floor for banks using modelled approaches based on the revised standardised approaches.

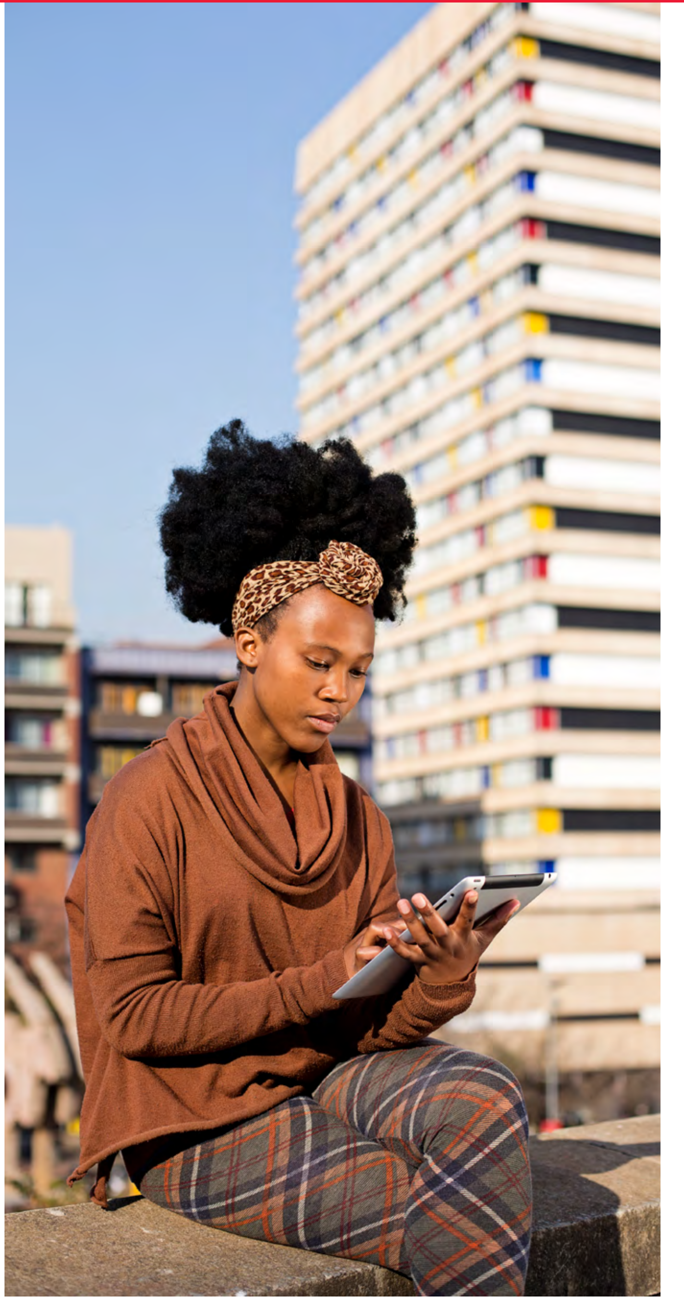
Collectively, the changes will require banks to re-examine capital consumption across business lines and potentially adjust pricing and product sets. When fully implemented, the framework will therefore have an impact on banks' strategy and business models, while the BCBS expects that it may also result in some redistribution of capital in the system.

The capital floors – which seek to impose a 'hard limit' to the capital benefit banks derive from using internal models to measure risk – are likely to be the main focus area for the major banks, while all banks will have to consider particularly carefully what infrastructure and technology enhancements will be needed to handle the increased volume and granularity of data required under the more complex standardised approaches.

All changes are scheduled for a single 'big-bang' implementation on 1 January 2022, with the capital floor scaling up over five years from this date.

Our initial take on the new package is that all banks should commence understanding the rules at a detailed level, evaluating bank-wide and group-wide scenarios to gauge the scale of impact across business unit and product levels, as well as evaluating the intersections of economic capital and RWA density levels. This will entail a coordinated approach and a programme of work to evaluate, analyse and prepare for the changes.

While the 2022 implementation date may seem distant, some of the individual changes are sufficiently broad in scope to require early implementation planning. For example, FRTB will pose potentially major implementation challenges that include the need for substantial effort around the policy framework driven by desk-specific models and required documentation; optimisation strategies, reflecting, for example, the interaction between desk structure, non-modellable risk factors and P&L attribution; while significantly increasing data demands.



## *Accounting developments*

On 1 January 2018, the much discussed *IFRS 9 – Financial Instruments* standard went live, following intense, group-wide implementation programmes by the major banks – and banks globally – to ensure that data, controls, models and systems are properly in place to produce IFRS 9-compliant measures of expected credit loss (ECL). While the transitional impact of IFRS 9 is still to be disclosed to the market by all of the banks, most have commented on their expectation for manageable impacts on profitability and regulatory capital ratios.

While IFRS 9 implementation efforts have required large programmes of multi-year work for the banks, 1 January also saw the effective date of the new revenue-recognition accounting standard, *IFRS 15 – Revenue from Contracts with Customers*. Some banks have commented on the impacts on reserves relating to the adoption of IFRS 15 and will likely provide more information to the market in subsequent reporting periods.

## *Implementation of IFRS 9*

IFRS 9 is an International Financial Reporting Standard (IFRS) set by the International Accounting Standards Board, the global accounting standard-setter. The Standard replaces the earlier accounting standard for financial instruments IAS 39, and is the conclusion of a multi-year programme of efforts to improve the existing framework and respond to concerns that arose during the global financial crisis about the timeliness of credit impairment recognition.

IFRS 9 was published in July 2014 and became effective from 1 January 2018. The Standard has no requirement for reporting entities to restate comparatives, but the day-one impact on implementation must be reflected in opening equity.

The implementation of IFRS 9 represents a significant challenge to the risk and finance functions across banks, as it introduces new concepts and measures such as 'significant increase in credit risk' and lifetime expected credit losses (ECLs).

Existing stress testing and regulatory models, skills and expertise were adapted across the major banks in order to meet IFRS 9 requirements and ready themselves for implementation. Data from client, finance and risk systems has been required to have been integrated and validated.

As a result of IFRS 9 adoption, management has additional insight and measures not previously utilised which, over time, may influence risk appetite and risk management processes. The IFRS 9 process comprises three main areas: modelling and data, implementation and governance.

We expect that the banks will continue to test and refine the new accounting processes, internal controls and governance frameworks introduced and/or adapted by the implementation of IFRS 9. Therefore, estimations of ECLs and related financial impacts are likely to remain areas of intense management estimation until finalisation of the full-year financial statements.

On 21 November 2017, the SARB issued Directive 5 which deals with a range of matters relating to the implementation of IFRS 9 for banks (and local branches of foreign banks). A key area of the Directive relates to specific requirements for all banks to prepare a set of special-purpose financial information to be submitted to the regulator within five months of the first date of their IFRS 9 implementation to demonstrate the transitional impact of the Standard, and for this information to be subject to specific audit requirements.

While the reporting under Directive 5 will be made specifically to the regulator, most banks have commented on expected ranges of the impact of IFRS 9 and will likely continue to communicate these impacts to the market over the course of the year.

## *Regulatory architecture developments*

For several periods now, we have commented on the much-discussed Twin Peaks model of financial services regulation to be adopted in South Africa – for which the enabling legislation (the Financial Sector Regulation Act of 2017) has been promulgated. The Act makes provision for the new financial services regulatory architecture by establishing two new financial sector regulators, the Prudential Authority and the Financial Sector Conduct Authority.

The SARB recently issued a ***media statement*** confirming that the Prudential Authority will take effect on 1 April 2018. The statement confirms that the Prudential Authority will be a juristic person operating within the administration of the SARB and will consist of four departments: Financial Conglomerate Supervision Department; Banking, Insurance and Financial Market Infrastructure Supervision Department; Risk Support Department; and Policy, Statistics and Industry Support Department.

The Act gives effect to three important changes to the regulation of the financial sector:

- It gives the SARB an explicit mandate to maintain and enhance financial stability.
- It creates a prudential regulator, which will be known as the Prudential Authority, located within the SARB, and responsible for regulating banks, insurers, cooperative financial institutions, financial conglomerates and certain market infrastructures.
- It establishes a new market conduct regulator responsible for supervision, from a conduct perspective, across the financial services industry

For banks and insurers in particular, we continue to expect that a dedicated market conduct regulator is likely to result in heightened levels of supervisory attention in the broad areas of market conduct and consumer protection, possibly to a level more aligned with the established UK model.

## Internal responses

While the major banks remain focused on many of the strategic themes we have commented on previously – including digitising legacy processes through robotic process automation efforts, replacing and upgrading legacy system architecture, and channel and product innovation with a view to enhancing customer experiences – a number of global industry trends are underway:

### Trust in the machines

Globally, there is a fundamental behavioural shift underway toward digital channels. A case in point: our *2017 Digital Banking* survey in the US found that 46% of customers skipped bank branches altogether, relying instead on smartphones, tablets and other online applications. The need to balance openness and protection in a connected world will likely be a major theme in 2018. By opening platforms to third parties through application programming interfaces (APIs), leading banks may unlock newfound value from data, create synergies with partners, and develop new cloud-based services more quickly.

### Plug and play

Many global banks now find they can replace entire functions with fully digital cores that supply standard offerings such as transactional accounts in ways that weren't possible a few years ago. This can be more efficient than endlessly patching legacy infrastructure and often lead to surprise at how much 'buy' can now edge out 'build' in banks' investment decisions.

### Beyond buzzwords

In 2017, global financial institutions were busy finding productive ways to harness the mountains of data they collect. For example, many global banks already use heuristics to analyse marketing campaign results, improving the return on marketing spend. Ultimately, the devil is in the detail, or perhaps 'in the data': For organisations with varying account structures and naming conventions, finding the right data is rarely simple. In 2018, many leading global banks will prepare data for machine learning, making it a priority to label *a lot* of data. This means sourcing, organising, and curating unstructured data, while they may even make more – creating 'synthetic data' that mimics real client profiles to help train systems.

### RPA 2.0

After gaining maturity in operations and finance, areas such as risk, compliance and human resources are next on the list of robotic process automation (RPA) opportunities. Our 2017 RPA survey found that 30% of respondents are at least on the way to enterprise adoption. But the path hasn't always been smooth. Some firms uncovered risk, control and people issues they hadn't expected. As we enter 2018, financial institutions face some tricky questions and are asking themselves: What controls should we apply to AI systems that decide and act in nanoseconds? How much authority should AI have? How do we make sure machines uphold their fiduciary duty? What about regulators? What if things don't go as planned? We expect leading banks to place more emphasis on these issues in 2018.

### Blockchain: Are we there yet?

We've been reading about the promise of blockchain technology for several years now. Many sceptics are beginning to wonder if the 'year of blockchain' will ever really arrive. As has been well documented, blockchain isn't a cure-all, but there are clearly many problems for which this technology is, or can be, the ideal solution.

We continue to see leading banks – and brokerages, insurers, regulators and others – actively testing ways to harness the benefits of blockchain. The journey has only just begun. In 2018, we think the conversation will shift away from the specifics of blockchain code toward bigger issues. For example: What will a distributed ledger world look like? How will parties work together in a multi-blockchain environment? What data can be shared – and should it be? What business processes will we be able to completely rethink?

We continue to see the major banks driving internal innovation through partnerships with fintech companies and others outside the traditionally core areas of financial services. As we noted previously, this effort in some ways reflects a departure from recent periods in which the banks sought solely to incubate innovation efforts internally.

## *New entrants likely to leverage cutting-edge insights from behavioural and neuroeconomics*

Many commentators agree that the newly-licensed South African banks that intend to start operations in 2018 – having acquired SA's first banking licences since 1999 – are likely to pose disruptions to the local banking industry.

Focused on offering mostly web- and app-based services, these new entrants stand to reap the rewards of digital banking's lower cost structures and start their lives unrestrained from legacy system architecture.

In addition, we anticipate they will leverage insights from behavioural and neuroeconomics to ensure they are truly relevant to South Africans. Through an approach of simplified interfaces, reduced complexity, and fast-tracked processes, these new entrants may attract consumers looking to simplify their banking experience, and pave the way for those completely new to banking.

Beyond the allure of 'simplified banking', these entities can also leverage the insights of financial wellness apps – like the South African *22seven* or the Australian *Nudge* – which help consumers make smarter financial decisions by employing nudges such as well-timed reminders of their saving and investment progress, visualisations of spending patterns, or comparisons to peer groups.

Through truly human-centred designs, the emerging web- and app-based services of SA's new banking entrants are likely to make a splash for customers, while registering on the competitive radar for SA's major banks.

The major banks can position themselves strongly in relation to these newcomers by driving consumer satisfaction through the application of advanced behavioural sciences on their digital platforms and pursuing their own exciting digital strategies further.

# Outlook

2018 has started with a renewed sense of optimism and a faith that improving levels of business and consumer confidence can translate into meaningful economic gains – albeit off a low base.

By most estimates, the South African economy is forecast to grow 1.6% in 2018 against the backdrop of a resilient macro economy, while global commodity prices are expected to sustain support to export levels and domestic production. However, structural challenges in the domestic economy remain, while fixed investment, as well as government consumption and capital expenditure, is forecast to remain subdued.

The South African economy remains exposed to the risk of being downgraded to universal sub-investment grade credit status, which could place the rand under pressure and challenge the inflation outlook for 2018.

Despite these uncertainties, an expectation for continued tapering of quantitative easing programmes by major central banks, an anticipated upturn in US interest rates and the expected rise in the local inflation cycle at some stage during the year, some analysts expect the MPC to keep interest rates unchanged at current levels throughout 2018.

Despite the challenges and structural uncertainties facing the South African economy, the domestic banking system remains profitable, well managed, adequately capitalised and supervised in line with international best practice.

Consistent with our previous observations, we expect various other factors will consume focus and time from banks' management teams over the short to medium term – ranging from increasing cyber dependency and associated cyber risks, sophisticated incidences of data fraud, and intensifying competition from digitally oriented competitors with lower-cost structures and more flexible operating models.

We see many reasons to be optimistic.

Globally, leading banks and financial services institutions are starting to reap the rewards of investments in emerging technology. They're also taking steps to get ahead of regulatory changes and adapting their long-term strategies to reflect global and societal shifts. For those who are prepared, this may be a time to pull ahead of the pack.

Throughout 2018, we expect to see:

- A continued focus on cost management, based on a clear understanding of the bank's central mission and core areas of strength;
- Continued use of software bots and artificial intelligence to make operations more efficient and discover insights that can continually improve the end-to-end customer experience;
- Banks harnessing their data and analytics abilities to predict customer needs and finding new paths to profit;
- Banks continuing to unlock powerful insights and move staff to higher-value work by deploying artificial intelligence and digital labour; while blockchain, or distributed ledger technology, may bring greater efficiency and security to a range of areas – including custody, payments and securities trading;
- Compliance investments becoming more efficient thanks to the advantages offered by the intersection of regulation and technology ('Regtech'); and
- While adapting to the new regulatory environment – in particular that of 'Basel IV' – leading banks will be those that commence early planning for strategic analyses and evaluating overall implications on capital management, business models, product mix and overall bank strategy.

# Results overview

2

Against an external environment characterised by significant economic and policy uncertainty in South Africa, alongside currency fluctuations, low GDP growth and subdued business confidence, the major banks' combined results have shown remarkable resilience and reflect a solid trajectory of performance, which we have seen play out over a sustained period.

## Headline earnings

Despite a challenging macro and domestic context, the major banks produced a solid set of results at 2H17, with earnings growth of 11.6% and 6.4% against 1H17 and 2H16 respectively. On an annualised basis, headline earnings grew by a resilient 5.2% against FY16.

A notable contributor of the earnings trend for this period has been the impact a 10.6% decline (against 1H17) in the combined bad debts charge as a result of lower portfolio impairments and the workout of legacy non-performing loans in CIB portfolios for some banks.

Despite the positive effect of the better bad debts experience and its impact on headline earnings, our analysis shows that core earnings (total operating income less operating expenses) improved by a moderate 1.7% against 1H17 (3.6% on an annualised basis) and is more reflective of the challenging operating environment over this period.

## Credit growth

Given elevated levels of political and economic uncertainty, low GDP growth and subdued levels of household and business confidence, the major banks' aggregate credit growth was muted for the period, growing only 1.7% against 1H17 and a modest 2.3% against 2H16.

As expected, retail asset-led businesses – including instalment sale and vehicle finance – which are traditionally more cyclical and sensitive to the economic environment, showed strain in achieving meaningful loan growth, and weighed down on growth in the overall retail portfolio, which stayed largely flat at 0.4% against 2H16.

Corporate credit demand, while also showing modest growth of 2.6% against 1H17, reflects some of the challenges faced by corporate South Africa and declined 1.4% over 2H17 when compared against 2H16.

## Asset quality

The overall credit experience of the major banks continued to reflect the disciplined approach to origination that they have adopted consistently over previous periods, with well-contained non-performing loan (NPL) growth of 0.1% against 1H17 (2% against 2H16) bearing testimony to this strategy.

The stickiness of NPLs and late-stage arrears in some cyclical and economically-sensitive portfolios, such as instalment sale finance, have however weighed moderately on further reductions in aggregate NPL stocks.

In addition, some banks have commented on the growing trend of client legal activity in arrears portfolios, which implies that these exposures stay on balance sheets for longer than would otherwise be the case.

From a provisioning perspective, combined balance sheet provisions decreased 0.4% (but increased moderately by 0.5% against 2H16), driven by releases of macro or portfolio provisions raised in prior periods for event risks (lower commodity price expectations, for example) that have subsequently receded.

## Net interest income

Combined net interest income (NII) of the major banks grew by a healthy 5.8% period on period (5.6% against 2H16) and by 3.8% on an annualised basis against FY16 – an impressive performance considering the challenging market conditions over the period.

Equally positive given the operating context, the major banks continue to lift the combined net interest margin, which widened by a strong 26bps from 4.42% at 1H17 to 4.68% at 2H17, which reflects how the banks continue to appropriately price for risk in their portfolios.

Narrowing of the prime/JIBAR spreads in 2017 against 2016, continued volatility due to political uncertainty and the sovereign credit rating downgrades led to a negative impact on wholesale with the cost of new term funding increasing.

However, solid lending margins on the book of prior period advances, together with changes in the funding mix, helped to offset heightened funding costs during the period. There is no doubt that the major banks will continue to place liquidity management high on their agendas in the coming period as they seek to optimise funding profiles within the context of structural and regulatory constraints.

## Efficiency

The combined cost-to-income ratio further weakened to 55.8% at 2H17 (55.4% at 1H17, 55.6% at 2H16 and 54.8% at 1H16), reflecting the challenges associated with disciplined cost containment in the current environment while balancing execution of strategic priorities. This is the tenth consecutive reporting period in which the cost-to-income ratio remained in the 54%-56% range, highlighting the challenge to further contain costs in the current environment.

In spite of disciplined cost management efforts, the current period continued the negative-jaws trend we observed at 1H17 in which total costs grew faster than operating income (6.4% compared to 5.8%). It is notable that included in the operating expenses line are increasing contributions of amortisation charges for some banks, as intense efforts over previous periods on IT infrastructure development move into the rollout phase.

While all banks commented on the high strategic priority of migrating customers to digital channels, an area of cost focus is likely to be the rightsizing of physical infrastructure and branch networks to achieve efficiencies, particularly as the strategic focus on digital channels accelerates.

## Return on equity

While all major banks remain adequately capitalised well above regulatory minima, the combined return on equity (ROE) grew by a robust 72bps to 18.6% against 1H17 (although it remained flat against 2H16).

Consistent with our previous observations, while the ROE trajectory of individual banks reflects varied experiences which their asset portfolios demonstrate at different points in the credit and economic cycle, their return profile continues to reflect disciplined, strategic choices and proactive focus on their portfolio mix. At the same time, we continue to observe an improvement in economic spread – which is the value created to shareholders.

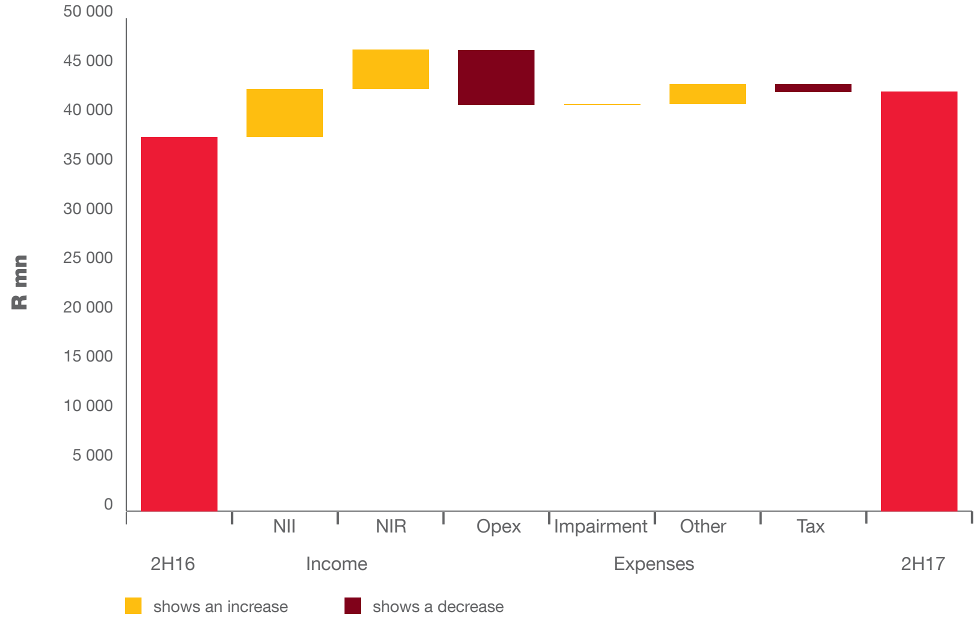
Overall, the major banks' healthy double-digit ROE levels remain significantly above those of their global peers and continues to benefit from the earnings profile of their businesses in some markets in the rest of Africa.

### Table 2.1 Combined results (R millions)

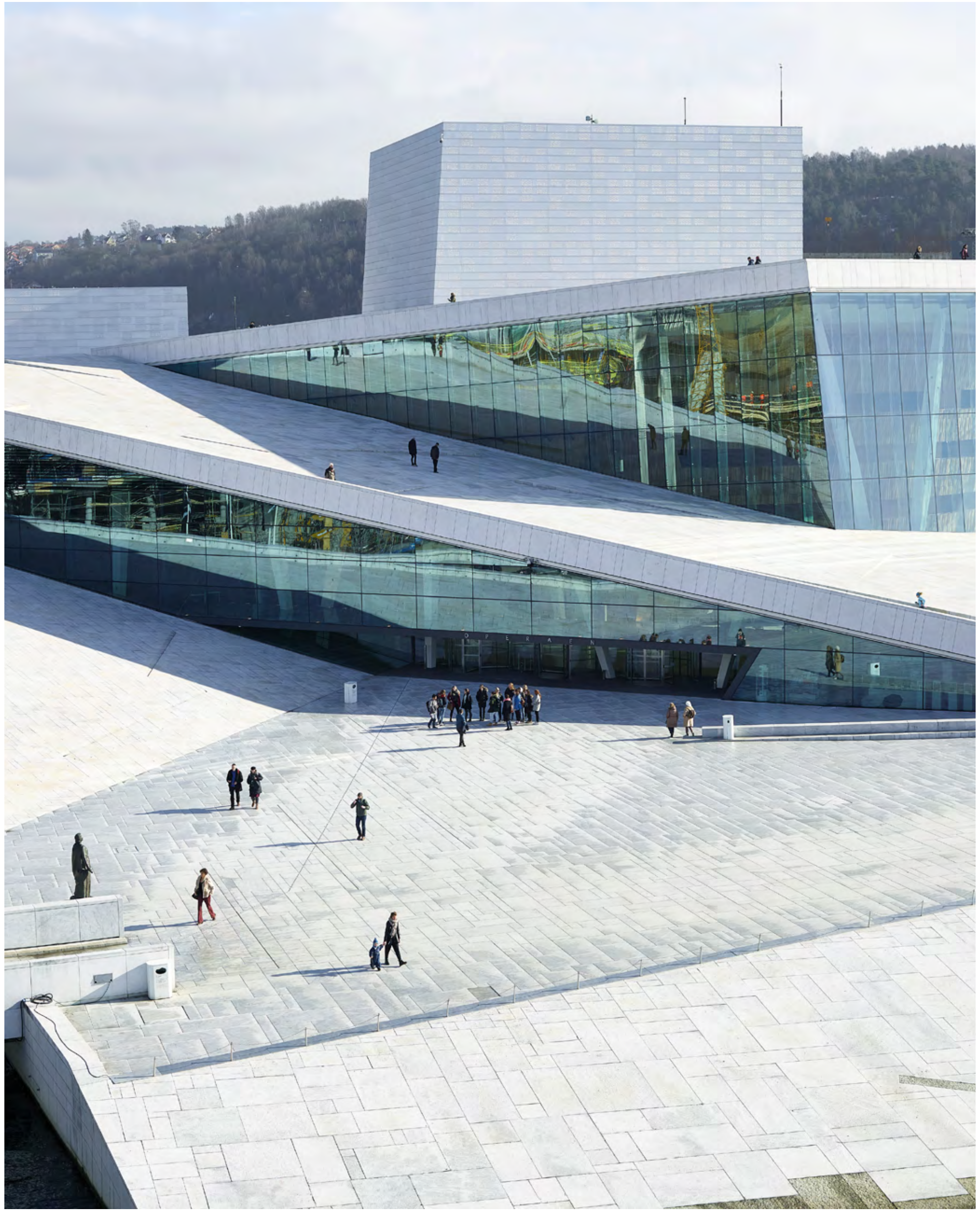
| | FY17 | 2H17 | 1H17 | FY16 | 2H16 | 1H16 | 2H17 v 1H17 | 2H17 v 2H16 |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 178 016 | 91 524 | 86 492 | 171 471 | 86 668 | 84 803 | 5.8% | 5.6% |
| Non-interest revenue | 137 759 | 69 650 | 68 109 | 132 602 | 65 662 | 66 940 | 2.3% | 6.1% |
| **Total operating income** | **315 775** | **161 174** | **154 601** | **304 073** | **152 330** | **151 743** | **4.3%** | **5.8%** |
| Total operating expenses | -179 999 | -92 709 | -87 290 | -173 028 | -87 135 | -85 893 | 6.2% | 6.4% |
| **Core earnings** | **135 776** | **68 465** | **67 311** | **131 045** | **65 195** | **65 850** | **1.7%** | **5.0%** |
| Impairment charge | -28 101 | -13 266 | -14 835 | -30 593 | -13 356 | -17 237 | -10.6% | -0.7% |
| Other income/(expenses) | 495 | 642 | -147 | -1 195 | -1 378 | 183 | <100% | <100% |
| Discontinued operations | - | - | - | - | - | - | - | - |
| Income tax expenses | -25 468 | -13 292 | -12 176 | -24 143 | -12 513 | -11 630 | 9.2% | 6.2% |
| **Profit for the period** | **82 702** | **42 549** | **40 153** | **75 114** | **37 948** | **37 166** | **6.0%** | **12.1%** |
| Attributable earnings | 76 632 | 39 706 | 36 926 | 68 662 | 34 194 | 34 468 | 7.5% | 16.1% |
| Headline earnings | 76 089 | 40 128 | 35 961 | 72 354 | 36 254 | 34 640 | 11.6% | 6.4% |
| Return on equity | 18.1% | 18.6% | 17.9% | 17.9% | 18.6% | 17.6% | 0.72 | - |

*Source: PwC analysis*

### Figure 2.1 Key drivers of combined profit and loss




*Source: PwC analysis*



# Balance sheet dynamics

3

## Credit growth

**Gross loans and advances** – Consistent with the domestic economic backdrop (heightened political and economic uncertainty, low GDP growth and subdued household and business confidence), the major banks' aggregate credit growth was again muted for the period, growing 1.7% against 1H17, and a modest 2.3% against 2H16. Consequently, the period continued to see focus on optimising the asset mix within balance sheets and ensuring that pricing for risk remained appropriate. As expected, the composition of the major banks' overall loan portfolios did not reflect significant strategic or other period-on-period changes in the shape of the combined balance sheet, as depicted in figure 3.1.

**Corporate lending** – Loans and advances to the corporate sector showed a mixed picture, growing 2.6% against 1H17 but declining 1.4% against 2H16, in many ways reflecting constrained corporate credit demand given the economic and political uncertainty that prevailed during 2017. As new business was offset by maturities and, in some cases, early repayments by clients, this weighed further on achieving more robust levels of corporate loan growth. At the same time, loans used primarily for liquidity management purposes (such as resale agreements) declined, as the banks continue to build stocks of high-quality assets to meet higher regulatory liquidity requirements.

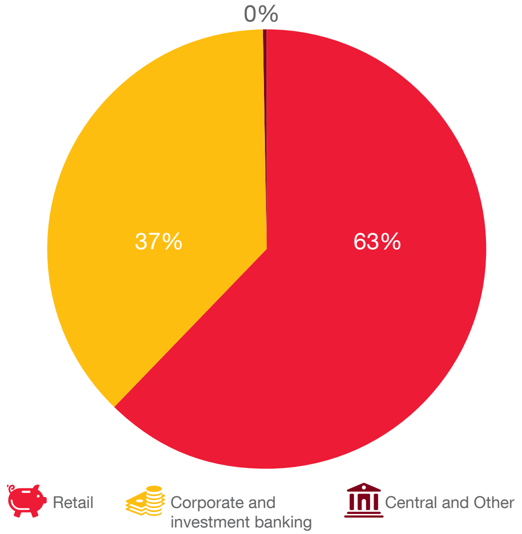
**Retail portfolios** – In aggregate, lending in the retail sector grew by a lacklustre 0.4% against 1H17 and 3.1% against 2H16. Instalment sale and vehicle financing somewhat aided overall retail lending growth, with this loan category showing 2.1% and 5% growth against 1H17 and 2H16 respectively, as new business disbursements only slightly exceeded the major banks' run-off books in this area.

While the combined mortgage book still grew in the current period, growth rates remained benign (growing 1% against 1H17 and 2.3% against 2H16). A key trend in the period was that retail lending categories sensitive to the economic cycle, including personal loans and unsecured lending, constrained the major banks' ability to generate overall retail loan growth.

**Figure 3.1 Composition of loan portfolios**

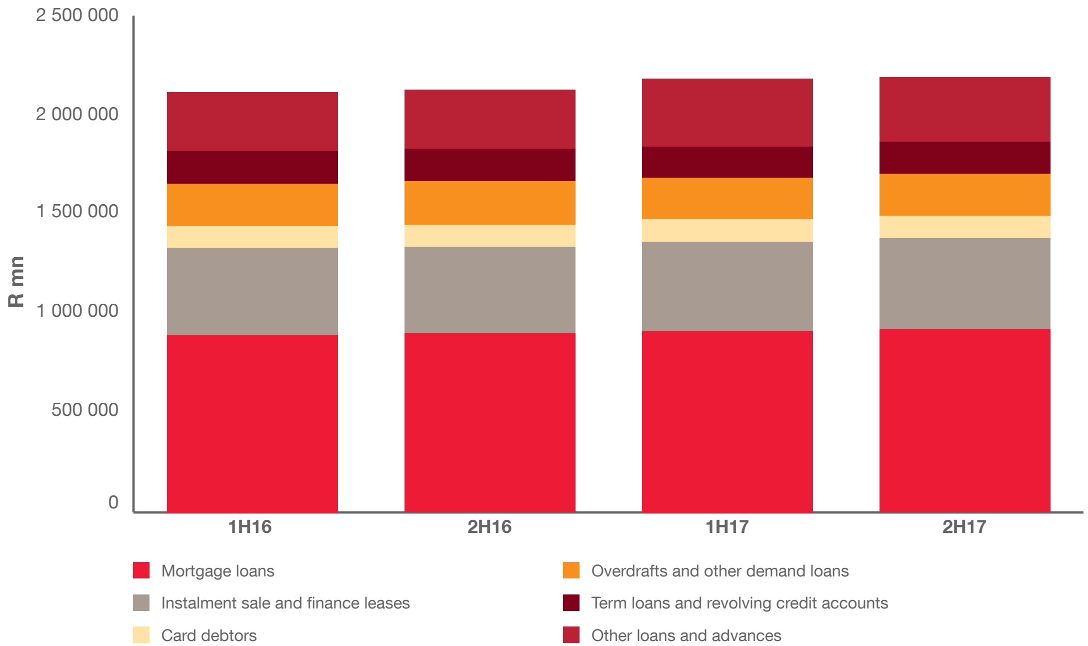

*Source: PwC analysis*

## Figure 3.2 Combined loans and advances by sector




*Source: PwC analysis*

## Figure 3.3 Retail advances per product




*Source: PwC analysis*

# Asset quality

*The quality of assets remained reflective of the disciplined approach to origination the banks have adopted consistently over previous periods, with well-contained non-performing loan growth of 0.1% against 1H17 (2.4% against 2H16) bearing testimony to this strategy*

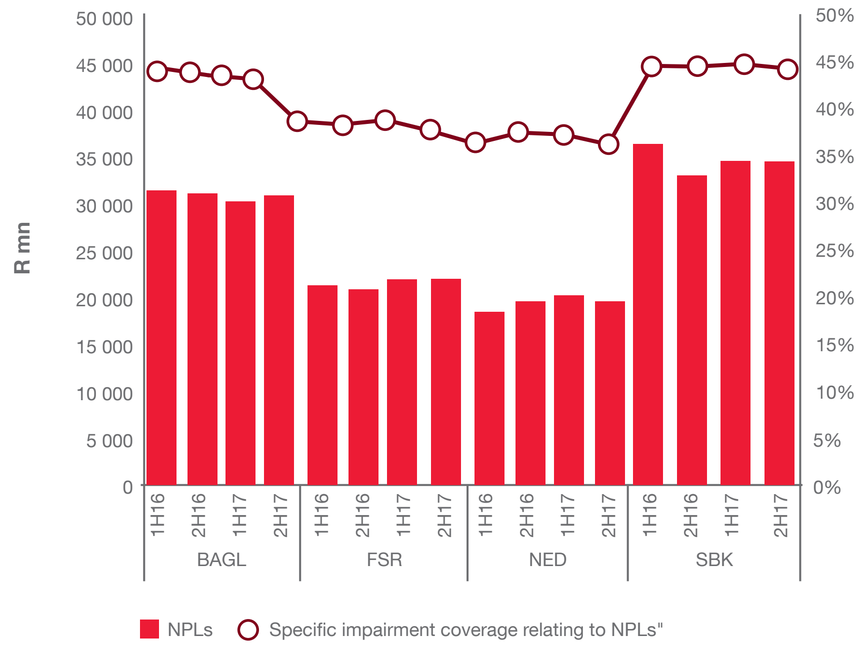
**Non-performing loans** – At 2H17, the major banks' combined non-performing loans (NPLs) comprised only 3.1% of their total loans and advances, which is largely the same figure at 1H17 (3% at 2H16). While the NPL experience between individual banks differs depending on which point in the economic and credit cycle loans were originated, overall corporate credit portfolios continued to benefit from prior-period impairments taken on specific names, which were not repeated, and ongoing discipline in credit risk management.

Interestingly, the commercial property finance loan category (while only making up a small absolute amount of the total NPL book) showed a large relative increase in NPLs in the second half of 2017. This will no doubt remain an area of acute risk management focus by credit teams.

**Coverage ratios and income statement impairments** – We continue to note individual banks taking nuanced stances in their portfolio provisioning strategies, given different experiences in the credit cycle, and in some cases releasing certain previously raised provisions for event risks that did not materialise as negatively as expected in their portfolios (particularly the rebound in global commodity prices).

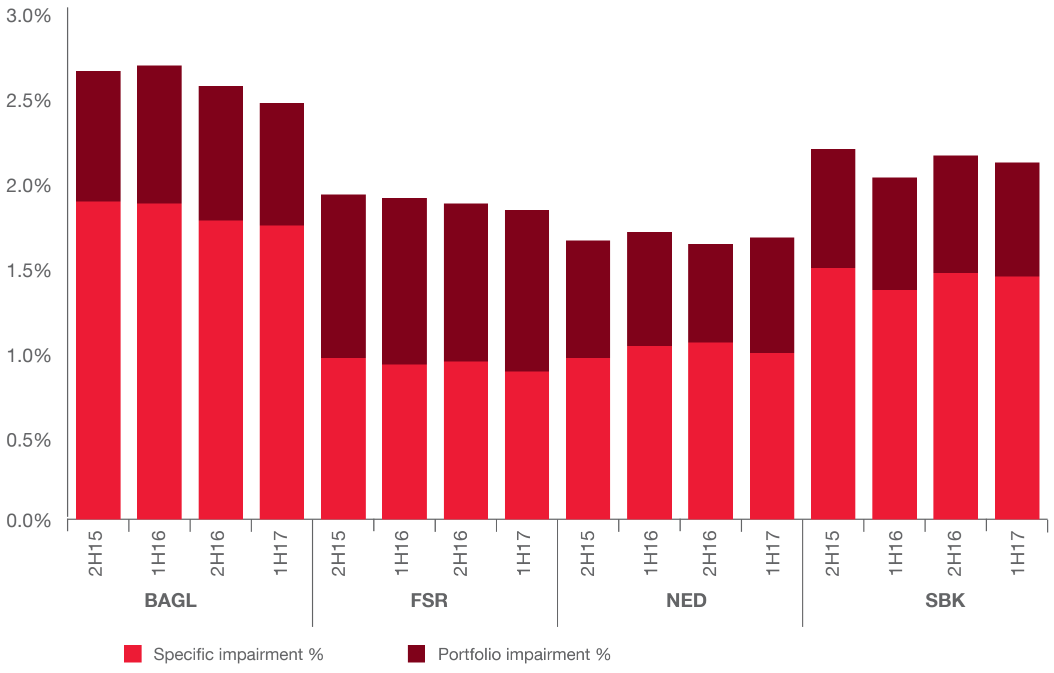
Following the migration of a few larger exposures to NPLs during the period, higher specific impairment charges were raised in some portfolios. Overall, as figure 3.4 depicts, the level of specific impairment coverage of NPLs remained resilient at 40.6% at 2H17 on a combined basis (41.1% at 1H17 and 2H16).

**Figure 3.4 Specific impairment coverage ratios**

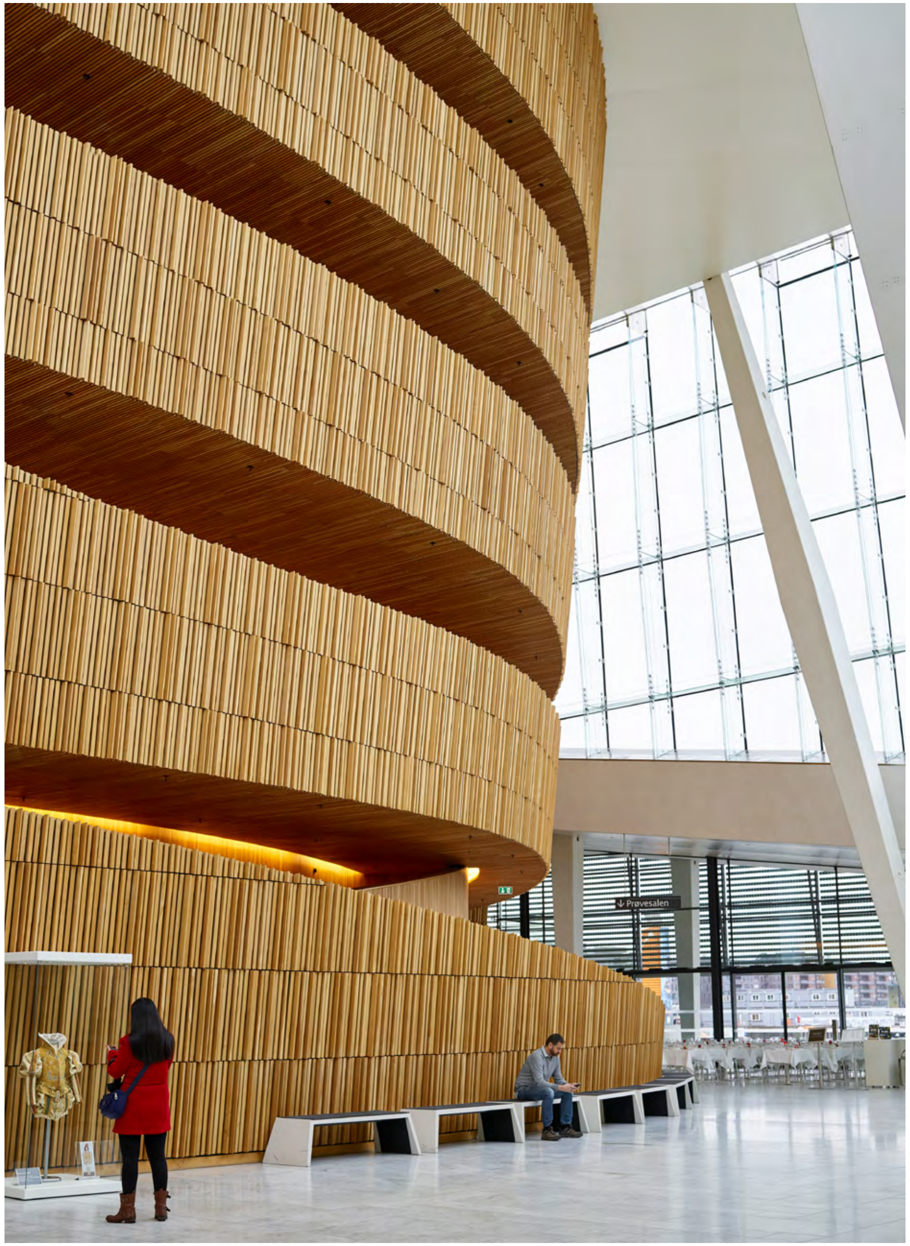



*Source: PwC analysis*

**Figure 3.5** **Balance sheet provisions (portfolio vs specific impairment) as a % of total advances**




*Source: PwC analysis*



# Capital and funding

**Capital resources and requirements** – As has consistently been the trend, the major banks remain adequately capitalised, well above regulatory minima, and managed to grow the combined ROE by 72 bps to 18.6% against 1H17 (although ROE levels remained flat against 2H16). At the same time, we continue to observe an improvement in economic spread (return on equity less cost of equity) – which is the value created for shareholders. The theme of robust regulatory capital positions continued at 2H17, with the combined total capital adequacy ratio increasing by 12bps against 2H16 to 15.9%. At the same time, the Common Equity Tier 1 ratio – representing the highest quality and most loss-absorbing form of regulatory capital – strengthened from 12.9% at 2H16 to 13.1% at 2H17.

A key metric which we have begun to track in the current period is the RWA density ratio, which measures the combined regulatory risk-weighted assets relative to total assets (on an IFRS basis). This technical ratio gives an indication of the extent of internal-modelling benefit banks derive from using the advanced regulatory approaches to determine their levels of required regulatory capital. At 2H17, the combined RWA density of the major banks was 59.9% (59.6% at 1H17 and 58.7% at 2H16). With the finalisation of the 'Basel IV' rules by the BCBS in December 2017 (set for implementation from 1 January 2022), we expect the banks to focus closely on the RWA density and overall capital management more broadly. One of the key features of the Basel IV package is capital output floors, which seek to impose a 'hard limit' to the regulatory capital benefit banks derive from using internal models to measure risk.

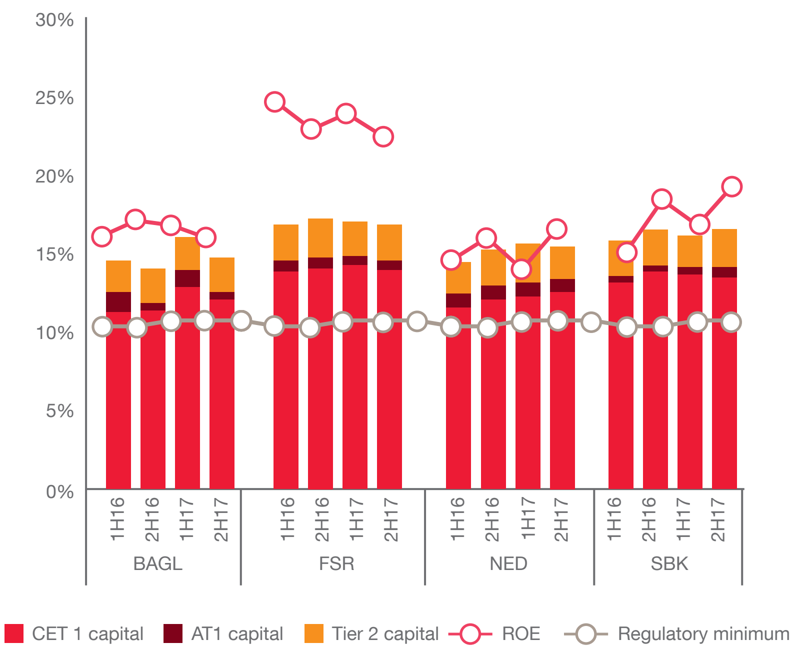
**Liquidity and funding** – Given market challenges in attracting higher rates of deposits within an environment of weak consumer and business confidence, and in the context of a structurally low domestic savings rate, deposit growth at 2H17 registered 2.4% against 1H17 (3.7% against 2H16).

With deposit growth outpacing aggregate loan growth, the combined loans-to-deposit ratio contracted to 93.6%, compared to 94.4% and 94.7% reported at 1H17 and 2H16 respectively.

The major banks also commented positively on their efforts to grow high-quality liquid assets as they focus on managing the Liquidity Coverage Ratio (LCR) – which they all currently comply with at above regulatory minima. On a combined group basis, the major banks reported an LCR ratio of 116.5% at 2H17 (106.8% at 2H16).

At the same time, broader efforts to manage the liability side of the balance sheet continue, as the longer-term Basel III prudential liquidity measure, the Net Stable Funding Ratio (NSFR), came into effect from 1 January 2018.

**Figure 3.6 Regulatory capital ratios and ROEs**




*Regulatory minimum applicable to all banks as depicted above excludes bank-specific/ Pillar 2b add-on requirements*

***Source: PwC analysis***

# Operating income

4

## Net interest income

*Net interest income remains an important driver of earnings growth for the major banks, and grew by a robust 5.8% against 1H17 (3.8% on an annualised basis for FY17). The combined net interest margin (NIM) also showed strength at 4.68% at 2H17 (4.42% at 1H17 and 4.36% at 2H16).*

### What's driving the numbers?

### *Endowment and economic impact*

The expansion in the combined NIM at 2H17 (4.68%) compared with 1H17 (4.42%) is a postive achievement, given the nature and scale of operating pressures that characterised FY17. Key drivers that the banks have noted to maintain their healthy NIM were the effect of positive endowment with higher average rates in some countries in the rest of Africa, improved and more risk-sensitive loan pricing particularly in corporate portfolios where effort was made in replacing foreign currency lending with local currency lending.

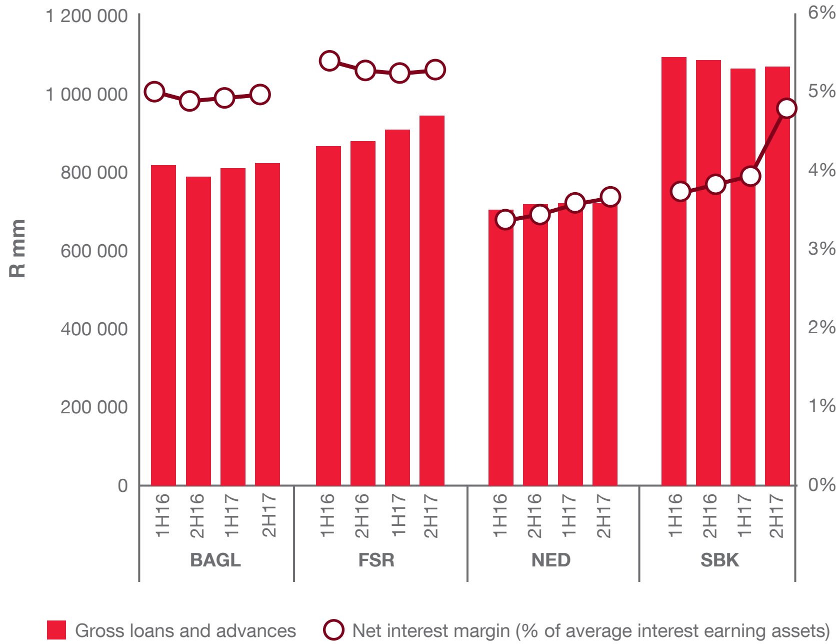
Narrowing of the prime/JIBAR spreads in 2017 against 2016, continued volatility due to political uncertainty and the sovereign credit rating downgrades led to a negative impact on wholesale with the cost of new term funding increasing. It is expected that a potential future local currency downgrade may lead to a significant increase in funding costs in wholesale, capital markets and foreign general funding.

### *Regulatory requirements, higher funding costs and balance sheet mix*

The major banks' funding margins have shown some level of widening as lending slowed during 2H17. At the same time, the banks continue to positon funding efforts, by focussing more on sticky retail customer deposits rather than relying on more expensive wholesale funding.

As we have previously highlighted, with the Basel III Liquidity Coverage Ratio (LCR) now firmly embedded into the regulatory framework, the banks continue to accumulate stocks of low-yielding, high-quality liquid assets for purposes of the LCR – a factor that also continues to offset NIM growth.

Figure 4.1 Net interest margin and advances




***Source: PwC analysis***

*Note: The NIM presented here is the amount as published by each of the banks in the relevant reporting periods reflected above. Where certain banks have noted in their results announcements that they have changed the basis of calculation of the NIM at 2H17, this has not been adjusted in the comparative periods above.*

# Non-interest revenue

5

*Non-interest revenue (NIR) continues to be primarily supported by growth in fee and commission income, which represents 70% of total NIR revenue for 2H17. Combined NIR grew 6.1% in 2H17 against 2H16 and 2.3% against 1H17, reflecting a solid growth trajectory.*

## What's driving the numbers?

### *Net fee and commission income*

Net fee and commission income grew 1.6%, reflecting growth which continued to benefit from strong volumes in digital and electronic channels along with a solid growth in customer numbers. Knowledge-based fee income, largely associated with investment banking advisory activities, has continued to show resilience despite tough trading conditions.

Current economic, political and social uncertainty could, however, impact banks in the near term as financing decisions, listings and takeovers may be delayed.

### *Fair value income*

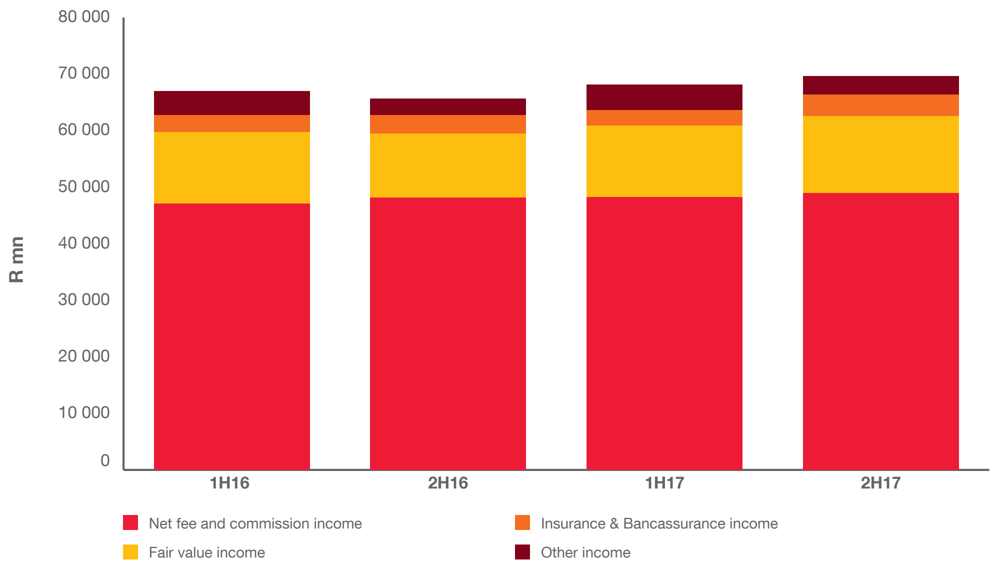
Fair-value income increased substantially by 20.6% compared to 2H16 and a robust increase of 7.8% compared to 1H17. Given the market volatility noted during 2017, the banks' fair value income benefited from this tailwind, notwithstanding the pressure placed on other financial statement line items (such as foreign currency translation reserves) as a result of the currency volatility experienced. Some of the major banks capitalised on the increase in cross-border trading activities and the contribution of trading activities in the rest of Africa, which remains a key driver for the next financial year.

### *Insurance and bancassurance income*

Revenue related to insurance and bancassurance activities increased by 13.5% compared to 2H16 and 36.7% compared to 1H17 – albeit off a low base.

Increased investments are still a focus as banks seek to ensure they meet near-term regulatory obligations expected in relation to insurance-type products.

**Figure 5.2 Non-interest revenue**




***Source: PwC analysis***

# Efficiency

6

*The combined cost-to-income ratio increased to 55.8% at 2H17 (1H17: 55.6% and at 2H16: 55.4%). This is the tenth consecutive reporting period in which the ratio remains in the 54%-56% range, illustrating the cost and revenue challenge facing the banks in the current operating environment and the balance they must achieve in executing on their strategic priorities*

## What's driving the numbers?

The major banks continue to focus on managing discretionary spend in a difficult operating environment for revenue growth. Focus continues on structural cost-reduction programmes to realise efficiency gains that can be invested in growth initiatives, while simplifying their business processes, branch optimisation and investing in information technology.

The banks were able to control IT and staff costs at growth rates of around 4%, which reflects a disciplined approach in these areas. However, these cost strategies were offset by depreciation and amortisation charges, which contributed to the widening in the combined cost-to-income ratio. We previously indicated that there will be increased amortisation charges as IT systems come online, which is now being reflected in the cost line. Key drivers and focus areas from a cost perspective for the major banks include:

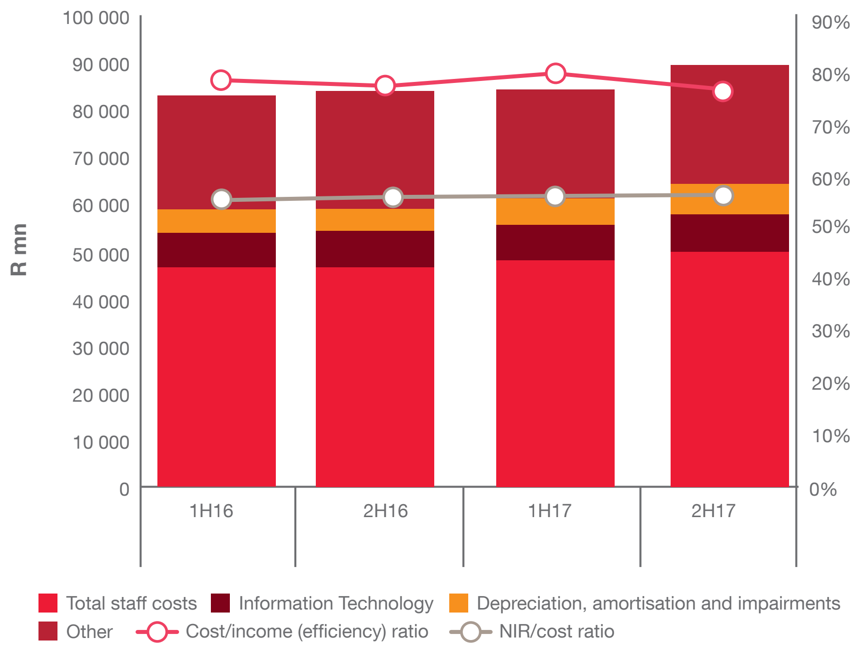
- Continued initiatives to optimise branch networks, coupled with increased costs to build out channels (particularly digital) that are fit for the future and responsive to evolving customer needs;
- Critical evaluation of internal processes and levels of automation with the aim of simplifying processes and rationalising systems, where possible, in order to deliver enhanced customer experiences and limit operational inefficiencies;
- Continued investment in operations on the continent outside South Africa, where significant efforts remain focused on infrastructure, people and IT systems;
- Significant investments in data capabilities to meet increased regulatory requirements, which generate additional software and licensing costs;
- Spending on cyber programmes to bolster cyber risk resilience; and
- Investments in new digital, data and automated solutions to respond to heightened customer expectations for seamless transactional banking as well as marketing costs for product campaigns.

Approximately 56% of the major banks' total operating expenses at 2H17 relate to staff costs, which represents a marginal decline on the contribution of 57% at 1H17. We expect the staff cost trend to continue in the short term, as specialist and skilled resources are required to assist the banks with their IT transformation projects and to help meet evolving cyber risk and compliance requirements.

A continued focus area for the major banks' in 2018 will be the challenge to improve efficiency levels through digital innovation and rightsizing of physical infrastructure given the accelerating focus on digital strategies.

Cost containment strategies will remain a critical profitability lever for the major banks in the coming year to support growth ambitions.

**Figure 6.1 Operating expenses**




***Source: PwC analysis***

# Hot off the press

7

## Recent PwC financial services and related publications

*Pulling fraud out of the shadows: Global Economic Crime and Fraud Survey 2018*


PwC asked over 7 200+ executives from 123 territories for their thoughts on economic crime and fraud. Forty-nine percent report they've experienced economic crime in the past two years. But what about the other 51%? Have they avoided falling victim – or simply don't know about it? Since fraud hides in the shadows, one of the most powerful weapons in a fraudster's armoury is a lack of awareness within organisations. It's time for all businesses to recognise the threat.

Click here to view

*21st Annual Global CEO Survey: The Anxious Optimist in the Corner Office*


Despite record levels of short-term optimism in the global economy, CEOs worldwide report heightened levels of anxiety regarding the business, economic, and, particularly, the societal threats confronting their organisations. PwC's 21st CEO Survey sheds light on this seeming contradiction and the factors contributing to CEOs' anxiously optimistic outlook on 2018 and beyond.

Click here to view

*Top financial services issues of 2018*


There's no doubt that the financial services industry is changing. It always does. Whether its shifts in technology, regulation, or global events, the changes can be dizzying. From the largest multinational firms to the smallest community institutions, it's time to revisit your plans – because what has led to success until now may not work as well in the future.In this report, PwC looks at 12 of the most important issues facing financial services firms in 2018 and puts them in perspective. For each topic, we look at the current landscape, share our view on what will likely come next, and offer our thoughts on how you can turn the situation to your advantage.

Click here to view

# Key banking statistics

8

| | BAGL | | | | FSR | | | | NED | | | | SBK | | | | Combined | | | | Growth (% and bps) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2H17 | 1H17 | 2H16 | 1H16 | 2H17 | 1H17 | 2H16 | 1H16 | 2H17 | 1H17 | 2H16 | 1H16 | 2H17 | 1H17 | 2H16 | 1H16 | 2H17 | 1H17 | 2H16 | 1H16 | 2H17 v 2H16 | 2H17 v 1H17 |
| **Balance sheet** | | | | | | | | | | | | | | | | | | | | | | |
| Total assets | 1,165,979 | 1,137,876 | 1,101,023 | 1,142,469 | 1,291,724 | 1,217,745 | 1,180,462 | 1,149,326 | 983,314 | 965,830 | 966,022 | 944,188 | 1,572,052 | 1,532,004 | 1,543,758 | 1,549,292 | 5,013,069 | 4,853,455 | 4,791,265 | 4,785,275 | 4.6% | 3.3% |
| Gross loans and advances | 824,072 | 811,503 | 789,814 | 818,303 | 945,008 | 910,066 | 880,742 | 867,982 | 722,331 | 721,910 | 719,226 | 704,871 | 1,070,471 | 1,066,214 | 1,087,421 | 1,095,230 | 3,561,882 | 3,509,693 | 3,477,203 | 3,486,386 | 2.4% | 1.5% |
| Total deposits | 757,257 | 745,652 | 728,057 | 754,895 | 1,040,042 | 983,529 | 951,970 | 920,074 | 771,584 | 762,712 | 761,542 | 741,712 | 1,237,924 | 1,226,166 | 1,228,993 | 1,214,408 | 3,806,807 | 3,718,059 | 3,670,562 | 3,631,089 | 3.7% | 2.4% |
| Risk weighted assets | 736,892 | 724,780 | 703,785 | 698,685 | 782,000 | 738,386 | 715,240 | 698,732 | 528,206 | 516,051 | 509,221 | 507,466 | 957,045 | 911,520 | 883,179 | 912,822 | 3,004,143 | 2,890,737 | 2,811,425 | 2,817,705 | 6.9% | 3.9% |
| **Loans to deposit ratio** | **108.8%** | **108.8%** | **108.5%** | **108.4%** | **90.9%** | **92.5%** | **92.5%** | **94.3%** | **93.6%** | **94.7%** | **94.4%** | **95.0%** | **86.5%** | **87.0%** | **88.5%** | **90.2%** | **93.6%** | **94.4%** | **94.7%** | **96.0%** | **-1.17** | **-0.83** |
| Asset quality & provisioning | | | | | | | | | | | | | | | | | | | | | | |
| Non-performing loans | 30,891 | 30,252 | 31,097 | 31,409 | 21,982 | 21,905 | 20,851 | 21,282 | 19,576 | 20,190 | 19,553 | 18,437 | 34,521 | 34,541 | 33,406 | 36,344 | 106,970 | 106,888 | 104,907 | 107,472 | 2.0% | 0.1% |
| Impairments | -18,874 | -19,067 | -19,716 | -19,431 | -17,276 | -16,960 | -16,571 | -16,577 | -12,002 | -12,046 | -12,149 | -11,539 | -22,444 | -22,816 | -21,793 | -23,796 | -70,596 | -70,889 | -70,229 | -71,343 | 0.5% | -0.4% |
| Collective provisions | -5,559 | -5,908 | -5,971 | -5,666 | -9,011 | -8,471 | -8,589 | -8,359 | -4,921 | -4,528 | -4,832 | -4,856 | -7,174 | -7,376 | -7,134 | -7,623 | -26,665 | -26,283 | -26,526 | -26,504 | 0.5% | 1.5% |
| Individually assessed provisions | -13,315 | -13,159 | -13,745 | -13,765 | -8,265 | -8,489 | -7,982 | -8,218 | -7,081 | -7,518 | -7,317 | -6,683 | -15,270 | -15,440 | -14,659 | -16,173 | -43,931 | -44,606 | -43,703 | -44,839 | 0.5% | -1.5% |
| Non-performing loans (% of advances) | 3.7% | 3.7% | 3.9% | 3.8% | 2.3% | 2.4% | 2.4% | 2.5% | 2.7% | 2.8% | 2.7% | 2.6% | 3.2% | 3.2% | 3.1% | 3.3% | 3.0% | 3.0% | 3.0% | 3.1% | | |
| **Impairment charge (% of average advances)** | **0.78%** | **0.96%** | **0.87%** | **1.29%** | **0.87%** | **0.96%** | **0.86%** | **0.95%** | **0.51%** | **0.47%** | **0.69%** | **0.67%** | **0.76%** | **0.96%** | **0.67%** | **1.05%** | **0.73%** | **0.84%** | **0.77%** | **0.99%** | **-0.06** | **-0.11** |
| Impairment coverage ratio | 61.10% | 63.0% | 63.4% | 61.9% | 78.6% | 77.4% | 79.5% | 77.9% | 61.31% | 59.7% | 62.1% | 62.6% | 65.02% | 66.1% | 65.2% | 65.5% | 66.5% | 66.5% | 67.6% | 67.0% | -0.02 | -0.11 |
| Implied loss given default | 43.10% | 43.5% | 44.2% | 43.8% | 37.6% | 38.8% | 38.3% | 38.6% | 36.17% | 37.2% | 37.4% | 36.2% | 44.23% | 44.7% | 43.9% | 44.5% | 40.28% | 41.05% | 40.95% | 40.80% | -0.02 | -0.04 |
| Profit & loss analysis | | | | | | | | | | | | | | | | | | | | | | |
| Net interest income | 21,528 | 20,791 | 20,910 | 21,093 | 24,565 | 23,383 | 23,243 | 22,907 | 14,076 | 13,548 | 13,398 | 13,028 | 31,355 | 28,770 | 29,117 | 27,775 | 91,524 | 86,492 | 86,668 | 84,803 | 5.6% | 5.8% |
| Non interest income | 15,332 | 15,249 | 14,976 | 15,415 | 19,514 | 20,564 | 17,663 | 18,080 | 12,333 | 11,730 | 12,146 | 11,357 | 22,471 | 20,566 | 20,877 | 22,088 | 69,650 | 68,109 | 65,662 | 66,940 | 6.1% | 2.3% |
| Total operating income | 36,860 | 36,040 | 35,886 | 36,508 | 44,079 | 43,947 | 40,906 | 40,987 | 26,409 | 25,278 | 25,544 | 24,385 | 53,826 | 49,336 | 49,994 | 49,863 | 161,174 | 154,601 | 152,330 | 151,743 | 5.8% | 4.3% |
| Total operating expenses | -22,525 | -20,754 | -21,317 | -20,759 | -23,511 | -23,035 | -21,819 | -21,740 | -15,970 | -14,843 | -15,141 | -14,152 | -30,703 | -28,658 | -28,858 | -29,242 | -92,709 | -87,290 | -87,135 | -85,893 | 6.4% | 6.2% |
| Core earnings | 14,335 | 15,286 | 14,569 | 15,749 | 20,568 | 20,912 | 19,087 | 19,247 | 10,439 | 10,435 | 10,403 | 10,233 | 23,123 | 20,678 | 21,136 | 20,621 | 68,465 | 67,311 | 65,195 | 65,850 | 5.0% | 1.7% |
| Impairment charge | -3,249 | -3,773 | -3,554 | -5,197 | -4,052 | -4,313 | -3,741 | -4,014 | -1,710 | -1,594 | -2,343 | -2,211 | -4,255 | -5,155 | -3,718 | -5,815 | -13,266 | -14,835 | -13,356 | -17,237 | -0.7% | -10.6% |
| Other income/(expenses) | 170 | - | 60 | 55 | 488 | 572 | 469 | 640 | 22 | -1,084 | -1,041 | -427 | -38 | 365 | -866 | -85 | 642 | -147 | -1,378 | 183 | -146.6% | -536.7% |
| Discontinued operations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0.0% | 0.0% |
| **Income tax expenses** | **-3,074** | **-3,191** | **-2,838** | **-2,997** | **-3,894** | **-3,456** | **-3,495** | **-3,227** | **-2,031** | **-2,178** | **-2,011** | **-1,944** | **-4,293** | **-3,351** | **-4,169** | **-3,462** | **-13,292** | **-12,176** | **-12,513** | **-11,630** | **6.2%** | **9.2%** |
| Profit for the period | 8,182 | 8,322 | 8,237 | 7,610 | 13,110 | 13,715 | 12,320 | 12,646 | 6,720 | 5,579 | 5,008 | 5,651 | 14,537 | 12,537 | 12,383 | 11,259 | 42,549 | 40,153 | 37,948 | 37,166 | 12.1% | 6.0% |
| Attributable earnings | 7,524 | 7,781 | 7,689 | 7,019 | 12,749 | 12,683 | 10,480 | 12,083 | 6,377 | 5,244 | 4,690 | 5,442 | 13,056 | 11,218 | 11,335 | 9,924 | 39,706 | 36,926 | 34,194 | 34,468 | 16.1% | 7.5% |
| Headline earnings from continuing operations | 7,788 | 7,770 | 7,728 | 7,252 | 12,573 | 11,903 | 11,859 | 11,988 | 6,516 | 5,271 | 6,038 | 5,427 | 13,251 | 11,017 | 12,089 | 9,973 | 40,128 | 35,961 | 37,714 | 34,640 | 6.4% | 11.6% |
| **Key data** | | | | | | | | | | | | | | | | | | | | | | |
| Other operating income (% of total income) | 41.60% | 42.31% | 41.73% | 42.22% | 44.27% | 46.79% | 43.18% | 44.11% | 46.70% | 46.40% | 47.55% | 46.57% | 41.75% | 41.69% | 41.76% | 44.30% | 43.58% | 44.30% | 43.55% | 44.30% | 0.02 | -0.72 |
| Net interest margin (% of total assets) | 3.7% | 3.7% | 3.9% | 3.8% | 2.3% | 2.4% | 2.4% | 2.5% | 2.7% | 2.8% | 2.7% | 2.6% | 3.2% | 3.2% | 3.1% | 3.3% | 3.0% | 3.0% | 3.0% | 3.1% | 1.72 | 1.71 |
| Net interest margin (% of average interest earning advances) | 4.97% | 4.93% | 4.89% | 5.01% | 5.28% | 5.24% | 5.28% | 5.40% | 3.66% | 3.58% | 3.45% | 3.37% | 4.80% | 3.94% | 3.83% | 3.72% | 4.68% | 4.42% | 4.36% | 4.38% | 0.31 | 0.26 |
| Standardised efficiency ratio | 58.00% | 55.60% | 57.00% | 53.40% | 52.25% | 51.26% | 51.94% | 52.01% | 57.90% | 59.30% | 56.70% | 57.10% | 55.20% | 56.30% | 55.80% | 56.80% | 55.8% | 55.6% | 55.4% | 54.8% | 0.48 | 0.22 |
| Return on equity | 16.0% | 16.8% | 17.1% | 16.1% | 22.5% | 23.9% | 22.9% | 24.6% | 16.6% | 14.0% | 16.0% | 14.6% | 19.3% | 16.8% | 18.4% | 15.2% | 18.6% | 17.9% | 18.6% | 17.6% | -0.01 | 0.72 |
| Total number of staff | 41,703 | 41,714 | 41,241 | 41,247 | 45,026 | 44,916 | 45,490 | 45,100 | 31,531 | 32,349 | 32,401 | 31,915 | - | 48,427 | 48,622 | 48,645 | 73,234 | 167,406 | 167,754 | 166,907 | -56.3% | -56.3% |
| **Capital ratios** | | | | | | | | | | | | | | | | | | | | | | |
| CET 1 | 12.1% | 12.9% | 11.4% | 11.3% | 14.0% | 14.3% | 14.1% | 13.9% | 12.6% | 12.3% | 12.1% | 11.6% | 13.5% | 13.7% | 13.9% | 13.2% | 13.1% | 13.3% | 12.9% | 12.5% | 0.18 | -0.25 |
| Tier 1 | 12.6% | 14.0% | 11.9% | 12.6% | 14.6% | 14.9% | 14.8% | 14.6% | 13.4% | 13.2% | 13.0% | 12.5% | 14.2% | 14.2% | 14.3% | 13.6% | 13.7% | 14.1% | 13.5% | 13.3% | 0.20 | -0.38 |
| Tier 2 | 2.2% | 2.1% | 2.2% | 2.0% | 2.3% | 2.2% | 2.5% | 2.3% | 2.1% | 2.5% | 2.3% | 2.0% | 2.4% | 2.0% | 2.3% | 2.3% | 2.2% | 2.2% | 2.3% | 2.2% | -0.08 | 0.04 |
| **Total** | **14.8%** | **16.1%** | **14.1%** | **14.6%** | **16.9%** | **17.1%** | **17.3%** | **16.9%** | **15.5%** | **15.7%** | **15.3%** | **14.5%** | **16.6%** | **16.2%** | **16.6%** | **15.9%** | **15.9%** | **16.3%** | **15.8%** | **15.5%** | **0.12** | **-0.33** |

# Contacts

9


### *Johannes Grosskopf*

Financial Services Industry Leader: Africa
PwC Africa
+27 11 797 4346
johannes.grosskopf@pwc.com
Connect on Linkedin



### *Costa Natsas*

Banking & Capital Markets Leader: South Africa
PwC Africa
+27 11 797 4105
costa.nastas@pwc.com
Connect on Linkedin


### *Contributors*

**Rivaan Roopnarain** – Banking & Capital Markets

**Dirk van der Spuy** – Financial Services Risk and Regulation

**Maura Feddersen** – Economic Advisory